

Message Text

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C O N F I D E N T I A L STATE 082670

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: OFFSET

1. AS INDICATED SEPTEL, THERE
FOLLOWS TEXT OF ASSISTANT SECRETARY HARTMAN'S LETTER ON US/
FRG OFFSET AGREEMENT DELIVERED APRIL 24 TO CHAIRMEN AND
RANKING MEMBERS OF HOUSE AND SENATE FOREIGN AFFAIRS (RELATIONS)
AND ARMED SERVICES COMMITTEES.

2. BEGIN TEXT. UNDER SECRETARY OF THE TREASURY VOLCKER,
DR. SHIELDS OF THE DEPARTMENT OF DEFENSE, AND I WOULD BE
GLAD TO HAVE AN OPPORTUNITY TO BRIEF YOU AND MEMBERS OF
YOUR COMMITTEE IN PERSON ON OUR NEW OFFSET AGREEMENT WITH
THE FEDERAL REPUBLIC OF GERMANY. BECAUSE YOU ARE JUST
TURNING FROM RECESS, AND BECAUSE THE TIME AVAILABLE IS
SHORT, I WOULD LIKE TO EXPLAIN AND DISCUSS THE AGREEMENT
IN THIS LETTER WHICH I WOULD ASK YOU TO CONSIDER CONFIDENTIAL.
I WANT TO EMPHASIZE THAT WE REMAIN READY TO BRIEF
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YOU AND OTHER MEMBERS OF YOUR COMMITTEE ORALLY AND TO ANS-

WER ANY QUESTIONS THAT YOU MAY HAVE.

3. AS AN ENCLOSURE TO THIS LETTER, I ATTACH THE TEXT OF THE AGREEMENT IN THE FORM IN WHICH IT WILL BE SIGNED BY AMERICAN AND GERMAN GOVERNMENT OFFICIALS. THE MINUTE SHOWS THE MAGNITUDE AND SPECIFIC COMPONENTS OF THE GERMAN OFFSET

FOR FISCAL YEARS 1974 AND 1975.

4. WE BELIEVE THAT THE NEW OFFSET AGREEMENT WITH THE FEDERAL REPUBLIC OF GERMANY, TOGETHER WITH THE PROCUREMENT PLANS OF OUR OTHER NATO ALLIES, WILL BOTH OFFSET THE BOP DEFICIT ON MILITARY ACCOUNT AND SUBSTANTIALLY CANCEL OUT THE ADDITIONAL COST OF STATIONING OUR TROOPS IN NATO EUROPE, AS CONTEMPLATED BY OUR BURDENSHARING EFFORTS AND INTENDED BY THE JACKSON-NUNN AMENDMENT.

5. THE NEW OFFSET AGREEMENT IS LARGER IN DOLLAR TERMS THAN ANY PREVIOUS US/FRG OFFSET AGREEMENT. IT IS THE PRODUCT OF MANY MONTHS OF DIFFICULT NEGOTIATION, INVOLVING NOT ONLY THE DELEGATIONS APPOINTED BY OUR TWO GOVERNMENTS BUT ALSO PERSONAL EXCHANGES BETWEEN OUR SECRETARIES OF THE TREASURY AND DEFENSE AND THE GERMAN FINANCE AND DEFENSE MINISTERS. WE REGARD THE RESULT AS A GOOD AGREEMENT-- PARTICULARLY IN VIEW OF THE IMPROVEMENTS IN THE US BALANCE OF PAYMENTS SINCE THE LAST AGREEMENT WAS NEGOTIATED. IN THAT CONNECTION, I SHOULD NOTE THAT REALIGNMENT OF EX- CHANGE RATES HAS SUBSTANTIALLY IMPROVED OUR COMPETITIVE POSITION.

6. THE COMPOSITION OF THE AGREEMENT IS GENERALLY SIMILAR TO THAT OF PREVIOUS OFFSET AGREEMENTS, BUT THERE ARE A NUMBER OF FEATURES THAT SIGNIFICANTLY INCREASE ITS VALUE TO THE UNITED STATES, INCLUDING SUBSTANTIAL BUDGETARY RELIEF. AS BEFORE, GERMAN MILITARY PROCUREMENT IN THE UNITED STATES REPRESENTS THE LARGEST SINGLE ELEMENT. OTHER ATTRACTIVE FEATURES INCLUDE GERMAN WILLINGNESS TO CONTINUE FUNDING THE REHABILITATION OF FACILITIES USED BY AMERICAN TROOPS IN THE FEDERAL REPUBLIC; TO TAKE OVER THE PAYMENT OF CERTAIN REAL ESTATE TAXES AND AIRPORT CHARGES IN CONNECTION WITH CONFIDENTIAL

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US MILITARY ACTIVITIES IN GERMANY; TO PURCHASE FROM THE US ATOMIC ENERGY COMMISSION ENRICHED URANIUM, INCLUDING ENRICHMENT SERVICES; AND--FOR THE FIRST TIME IN THE FRAME- WORK OF AN OFFSET AGREEMENT--TO FINANCE US/GERMAN COOPERA- TION IN SCIENCE AND TECHNOLOGY. COOPERATION BETWEEN OUR TWO COUNTRIES IN THIS FIELD IS PARTICULARLY TIMELY AND VALUABLE IN THE LIGHT OF THE INTERNATIONAL ENERGY SITUA- TION.

7. AS IN THE CASE OF PREVIOUS OFFSET AGREEMENTS, THE NEW AGREEMENT MAKES PROVISION FOR GERMAN PURCHASES OF SPECIAL US GOVERNMENT SECURITIES ON CONCESSIONARY TERMS. THE SIGNIFICANT INTEREST SAVINGS RESULTING FROM A DOLS 843 MILLION LOAN OVER SEVEN YEARS AT TWO AND ONE-HALF PERCENT,

TOGETHER WITH THE ABOVE-MENTIONED GERMAN CONTRIBUTIONS TO OUR TROOP STATIONING COSTS SUCH AS TROOP FACILITIES REHABILITATION AND ABSORPTION OF TAXES AND AIRPORT FEES, SUBSTANTIALLY COVER THE ADDITIONAL

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